

NEWS

Fran Pavley

Assemblymember, 41st District

A MONTHLY ELECTRONIC NEWSLETTER TO THE 41st ASSEMBLY DISTRICT
(Including Agoura Hills, Calabasas, Encino, Malibu, Hidden Hills, Lake Sherwood, Oak Park, Pacific Palisades, Port Hueneme, South Oxnard, Santa Monica, Tarzana, Topanga, Westlake Village, and Woodland Hills.)

JANUARY 2004 ISSUE

Governor Throws Out First Pitch of the Year With Proposed 2004-05 Budget

Last year ended when the Legislature and the Governor agreed to put a \$15 billion deficit recovery bond on the March ballot – most of it to help balance out the 2003-04 state budget. Although there are encouraging signs of an economic recovery, it won't be enough, or come quickly enough, to alone close the projected \$14 billion shortfall that we anticipate in the 2004-05 budget. (\$10 billion projected, plus another \$4 billion which is the cost of the Governor's decision to continue subsidizing our car registration fees.) Moreover, recent press accounts have reported that some economists are questioning whether or not the recent signs of an improving economy mark a genuine turnaround or are just indicators of some current good news.

State Legislative Analyst Releases Her Overview



Elizabeth Hill

On January 13, Elizabeth Hill, California's Legislative Analyst who provides nonpartisan fiscal and policy information and advice that both Republicans and Democrats in the Legislature rely on, released her overview of the Governor's Budget to the Legislature. To close the current budget gap, 45% of the Governor's budget is program cuts. 55% is borrowing or fund shifts. Ms. Hill has raised several concerns about some strategies employed by the Governor, including what were, in her opinion, potentially flawed or non-specific assumptions as to revenue.

They include some budget savings that may not be realized for legal and other reasons:

- \$400 million of unallocated cuts to prisons.
- An additional 10% cut in MediCal provider rates, even though last year's 5% cut in rates did not survive legal challenge. (The Administration is appealing that decision.)
- \$500 million contribution from tribal gaming, but which has yet to be negotiated.
- \$935 million from sale of pension obligation bonds that are subject to an existing legal challenge.

The entire 20-page document with the LAO's more detailed comments can be accessed on the LAO's website at www.lao.ca.gov/2004/budget_overview.

LAO's General Comments on Governor's Proposal

"The basic budget problem currently facing the state involves an ongoing projected structural imbalance between current-law expenditures and revenues of roughly \$15 billion annually. The Governor's 2004-05 budget proposal seeks to address this problem in 2004-05 largely through a combination of major and wide-ranging spending reductions, additional borrowing, and a diversion of local property taxes for the benefit of the state. It casts a wide net in terms of its proposed cuts, includes significant fee increases in higher education and other areas, and does not impose tax increases. Finally, the budget proposal is self-described as a 'work-out' plan and acknowledges that it does not fully address the structural budget problem.

"The proposal has several positive attributes, including realistic revenue and caseload assumptions, as well as real and ongoing solutions from most areas of the budget. As such, we believe that it provides a solid starting point for budget deliberations. At the same time, however, it presents the Legislature with numerous policy issues and concerns.

*"For example, **its reductions would have far-reaching consequences for the scope of state services in a variety of program areas.** Some of its proposals lack detail or have savings estimates that may not be achievable. And even with the serious spending reductions it proposed in 2004-05, **the plan does not fully address the state's ongoing budget problem** – leaving a roughly \$6 billion shortfall between expenditures and revenues in 2005-06. This means that **further cuts, more borrowing, revenue increases, or other solutions beyond those included in 2004-05 would be needed to achieve budgetary balance in the out years....** In view of these factors, it will be necessary for the Legislature to 'look beyond' this proposal and **consider other options – including additional savings, proposals and revenue increases** – if it wishes to fully resolve the state's chronic budget crisis."*

LAO's Concludes with "Considerations for the Legislature"

After characterizing the Governor's savings and other solution assumptions as "risky," Ms. Hill concluded by asking the Legislature to consider whether additional revenues should be part of the budget solution.

*"There are several reasons to ask this question. One involves **the large magnitude and potentially far-reaching effects of the proposed budget reductions on state programs.** A second is the multibillion-dollar ongoing budget shortfall that would still remain unresolved even under the Governor's plan, and that would have to be dealt with through **more borrowing or further spending cuts if additional revenues are 'left off the table.'** We believe the Legislature should consider whether solutions involving taxes – such as the elimination of selected tax expenditures or increased tax rates – should be part of the 2004-05 budget plan. Even if limited tax increases have certain negative effects on the economy, these consequences should be weighed against the negative consequences of the alternatives, including deeper cuts in public spending in infrastructure, education, and other areas, or more borrowing."*

The Governor's proposal is just a first draft, or the first inning in a baseball game. The Governor has thrown out the first pitch and the Legislature is now at bat. The details of the budget next go to multiple policy committees where the specific details of the very complex actual budget will be debated between now and June 30.

As a teacher, for example, I will need to know things such as:

- What will the long-term impacts be of the Governor's proposal to raise tuition for graduate degrees by 40% in our CSUs and UCs?



- How will this affect California's need to attract thousands of new classroom teachers who need that fifth year to obtain a Teaching Credential or Master's Degree?
- Will we have sufficient teachers to meet the "highly qualified teacher" requirements of the Federal government's "No Child Left Behind" program and funding?
- Will increasing tuition rates in our community colleges, CSUs and UCs deny access to thousands of Californians and affect our economy's need for an educated workforce?
- Why are fee increases more politically acceptable than general purpose tax increases?

A "Big Five" – consisting of the Senate President and Senate minority leader, Assembly Speaker and Assembly minority leader, and the Governor – will be working together throughout this process to try and pull it all together into a final budget that the Governor is prepared to sign. He gets the last word once the Assembly and the Senate have both passed a final budget, and it lands back on his desk for signature and possible line-item vetoes.

This process will not likely be easy. California remains one of only three states in the nation (with Arkansas and Rhode Island the other two) that still requires a 2/3 vote of the Legislature to pass its budget. This means that a very small handful of legislators can hold, and often have held, the budget hostage for weeks – even after a majority of the Legislature has reached agreement. Voters will have a chance to decide whether or not California's requirement should be changed to a 55% supermajority when they vote on Proposition 56 on the March 2 ballot.

All of our decisions as we work on the budget must at the end of the day lead to a balanced budget solution. **Expenditures simply cannot exceed revenues.** If you save one program, what other program will feel the budget ax to make up the difference? And the fate of the \$15 billion March "Budget Recovery Bond" will determine whether we have a \$14 billion remaining shortfall, **or potentially \$29 billion?**

Of course we will continue to look for the "waste, fraud and abuse" that the Governor campaigned on, but realistically, it will form only a very small part of the final budget solution. Below are a few comments from the Governor's January 6 State of the State address:

- The \$15 billion deficit bond to close out 2003-04 is essential. State Controller Steve Westly will be co-chairing the committee to campaign for this bond and get it passed.
- More autonomy for schools to determine how state funds are spent, plus a commitment to build a new University of California at Merced.
- "I want your ideas, and the more radical the better." To take him up on his invitation, you can e-mail suggestions to governor@governor.ca.gov.
- "I am going to become California's Job Czar. I'm going to travel the nation and the world to find those jobs."
- "Real worker's comp reform... If modest reform is all that lands on my desk, I am prepared to take my worker's comp solution to the people. It will be on the November ballot."
- "We must reform the wholesale power market to attract new energy investment." This includes deregulation that allows large businesses to opt-out and obtain direct access to the grid.
- "Building of a hydrogen highway to take us to the environmental future." *
- "Fight side-by-side to get more federal tax money for homeland security, criminal aliens, water resources, highways, and other needs."

There was no mention of health care, air and water quality cleanup programs, or transportation and congestion relief projects.

*(I will be holding a Select Committee hearing on hydrogen sometime in February.)

Some of the uncertainties that the Governor is hoping for in terms of economic recovery include:

- He wants \$500 million from the Native American tribes that operate casinos. However, because they operate as sovereign nations, contracts could only be voluntarily renegotiated. Should California allow the tribes more slot machines? How about allowing them to purchase land (which may presently be parkland or open space adjacent to urban areas) to build new casinos? The Governor may use the threat of a proposed voter initiative to expand gambling rights that would compete with the tribes to such entities as existing racetracks and card rooms.
- He is counting on more Federal money from Washington such as Homeland Security funds, and more money for education.
- He hopes that we are seeing a dependable and permanent state/national economic upturn that can be counted on to bring in new tax dollars from existing sources.

Good News/Bad News for Local Government

There is some good news for local government. The Governor's proposal does contain \$4.1 billion to continue the full amount of vehicle license fees that belong to local government – at least for this coming year.

There is more bad news, unfortunately.

- His budget also takes \$1.3 billion in ongoing and permanent shifts of property taxes away from local government.
- It suspends Proposition 42, which directed gas taxes to transportation projects. This may mean that there will be no new transportation projects for the next five years, and it repeals funding for 141 projects that were already approved. It also shifts authority from the California Transportation Commission to the Department of Finance inside the Governor's Office.
- It makes many significant cuts in health and human services programs, which will directly or indirectly impact counties and larger cities.

In short , batter up...

It's no game, but there is a competition ahead over the next six months of ideas. Democrats and Republicans have different ideas on program cuts, revenue options, more borrowing, etc. as the strategies that will ultimately be needed to produce a balanced budget. With the first pitch having been thrown, we still have nine long innings of policy committees and vigorous debate to go. There are no easy answers. Countless painful decisions will need to be made. Like in baseball, however, we in the legislature need to work together as one team to find new ways of working together on what is in the long-term best interest of the 35 million Californians who we serve.

New Jersey "Clean Cars Act" Passes

In the summer of 2002, my bill AB 1493 was signed into law. It directs the California Air Resources Board to develop regulations by 2005 that will reduce greenhouse gas emissions from passenger vehicles and light-duty trucks starting with the 2009 model year. This was landmark legislation that attained national and international recognition as an important way to help clean up our air and reduce global warming. On Friday, January 16, Terry Tamminen, Secretary of CalEPA; Alan Lloyd, Executive Director of the Air Resources Board; and I spoke to a coalition of organizations to update them on both the processes to develop and the various challenges to those new regulations. Public hearings will be scheduled later this year.

One of the ripples from my bill was New Jersey's "Clean Cars Act" that adopts Phase II of our new emissions standards and requires manufacturers to produce a percentage of cars that are 70 to 95% cleaner than conventional cars. On January 12, that bill passed through their Senate and Assembly, and is now headed for the Governor's desk for signature. Congratulations to New Jersey helping to clean up America's air, state by state.

Free Cash for College

It's that time again. Financial aid is available for college-bound students, including grants, scholarships, loans or work-study. Free expert assistance is available to help students with financial aid forms. My office is co-hosting one of the L.A. Free Cash for College Days on **Saturday, January 24, at Pierce College in Woodland Hills from 9:00 a.m. to 3:00 p.m.** For more information on the Pierce College event, call Mary Sue Maurer in my District Office, or you can visit the City of L.A.'s website at www.lafreecashforcollege.org. The application deadline for CalGrant student aid is March 2, so don't miss this opportunity to see if you qualify for this important financial aid.

Capitol Fellows Program for College Graduates

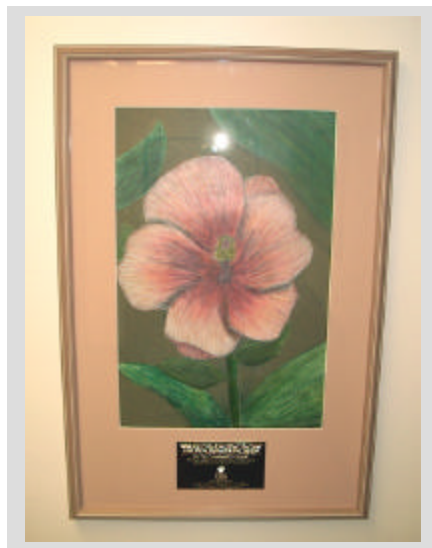
The Center of California Studies administers the nationally-recognized Assembly, Senate, Executive, and Judicial Administration Fellows program in Sacramento each year. Fellows serve for 11 months, enroll as graduate students at CSU Sacramento, earn 12 graduate credits, and receive a monthly stipend of \$1,882 and health benefits. They work as full-time members of a legislative, executive or judicial branch office, and are typically given assignments with a significant amount of challenge and responsibility. If you would like to know more about these very interesting opportunities, you can e-mail calstudies@csus.edu, or visit CSU Sacramento's website at www.csus.edu/calst. **Application deadline is February 25, 2004.**

FTB Offers On-line Assistance

The Franchise Tax Board encourages taxpayers to use their website if they need assistance with their tax returns. With the FTB facing budget reductions and less staff, they have added new information and features online that are available 24/7, including changes to state tax law and many helpful suggestions and frequently asked questions. The Volunteer Income Tax Assistance and Tax Counseling for the Elderly program will still provide staff at more than 1,100 volunteer centers statewide, with locations given on the website. Check it out at www.ftb.ca.gov.

"Outstanding Legislator of the Year Award"

I was honored to finish out last year by being named by the California School Boards Association as a recipient of their "2003 Outstanding Legislator of the Year Award." As a public school teacher, it was very gratifying to be selected by this association to be recognized for my "outstanding efforts as a legislator on behalf of K-12 education." Education and the environment have been two of



my top legislative priorities since being elected to the Assembly, and will continue to be. Also recognized were Senator Byron Sher and Assemblymember John Benoit. Each of us was presented with a beautiful framed drawing from a student in our district. Mine was a lovely pastel from Dalys Domm, an eighth grade student at Lindero Canyon Middle School in Agoura Hills. Many thanks to Dalys and to her art teacher, Marilyn Fine.

Assemblymember Pavley's Committee Assignments

Appropriations Committee
Arts, Entertainment, Sports, Tourism, and Internet Media Committee
Budget Committee
Education Committee
Transportation Committee
Water, Parks and Wildlife Committee
Select Committee on California Ports
Select Committee on Coastal Protection
Select Committee on the Future of California's Health
Select Committee on National Defense, Technology and Jobs
Select Committee on Sustainability
Select Committee on Title IX
Chair, Select Committee on Air and Water Quality
Chair, Budget Subcommittee #3 on Resources
Legislative Advisory Committee – Wildlife Conservation Board
Legislative Advisory Committee – California Coastal Conservancy
Santa Monica Mountains Conservancy Board

HOW TO REACH ME:

District Office:

6355 Topanga Canyon Blvd., Suite 205
Woodland Hills, CA 91367
Phones: (818) 596-4141 • (805) 644-4141 • (310) 395-
3414
Fax: (818) 596-4150

Capitol Office:

State Capitol
P.O. Box 942849
Sacramento, CA 94249-0001
Phone: (916) 319-2041
Fax: (916) 319-2141

E-mail: assemblymember.pavley@assembly.ca.gov

Or visit my website at www.assembly.ca.gov

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